Report

of the

Examination of

Laurier Indemnity Company

Milwaukee, Wisconsin

As of December 31, 2004

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 11, 2005

Honorable Jorge Gomez
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Alfred W. Gross
Chair, Financial Condition (E) Committee, NAIC
Commissioner of Insurance
Commonwealth of Virginia
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Honorable Julianne M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner of Insurance
Commonwealth of Massachusetts
One South Station, 5th Floor
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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

LAURIER INDEMNITY COMPANY
Milwaukee, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Laurier Indemnity Company (the company) was conducted in 2001 as of December 31, 2000, by the Georgia Department of Insurance. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. The prior examination conducted by the Georgia Department of Insurance had no recommendations and one reclassification.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1988 in the state of Georgia. It remained a shell until the company began writing business during the fiscal year 1992. Since 1992, the company has underwritten worker's compensation, professional liability and surety bond coverages, primarily for a related company, Extendicare Health Services, Inc., (formally United Health, Inc.) of Milwaukee, Wisconsin. The company currently is writing only worker's compensation excess policy for an affiliate. The company redomiciled to Wisconsin on December 19, 2003.

Extendicare Health Services, Inc.'s primary business is ownership and operation of nursing home facilities throughout the United States. The company's ultimate parent is Extendicare, Inc., of Markham, Ontario, Canada. Extendicare, Inc., operates 440 long-term care and assisted living facilities across North America, with a capacity for over 34,400 residents. Also, Extendicare, Inc., offers medical specialty services such as subacute care and rehabilitative therapy services, while home health care services are provided in Canada. Extendicare, Inc., has 38,500 employees in the United States and Canada.

In 2004, the company wrote direct premium in the following states:

Pennsylvania	$3,536,277	99.4%
Ohio	233,731	6.6
Indiana	7,631	0.2
Washington	4,314	0.1
All others	(223,342)	(6.3)
Total	$3,558,611	100.0%

The company had premiums and is licensed in the following states: Arkansas, Florida, Idaho, Indiana, Kentucky, Maryland, Minnesota, Ohio, Oregon, Pennsylvania, Washington and Wisconsin. The company had no premium but is licensed in the following states: Alabama, Alaska, Arizona, California, Colorado, District of Columbia, Georgia, Illinois, Iowa, Kansas, Michigan, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia and Wyoming.

The major products marketed by the company include professional liability, surety, and excess worker's compensation for affiliated nursing home and health care facilities. The major products are marketed through The Northern Group, Inc., an affiliate.

The following table is a summary of the net insurance premiums written by the company in 2004. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Worker's compensation	$ (119,489)	$(172)	$0	$ (119,661)
Other liability - occurrence	3,570,000			3,570,000
Surety	108,100			108,100
Total All Lines	$3,558,611	$(172)	$0	$3,558,439

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of seven members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
James Wesley Carter Toronto, Ontario, Canada	President of The Northern Group and Laurier Indemnity Company	2006
Roch Carter Milwaukee, Wisconsin	Vice President, General Counsel and Assistant Secretary of Extendicare Health Services, Inc.	2006
Douglas James Harris Mequon, Wisconsin	Vice President and Controller of Extendicare Health Services, Inc. Controller of Laurier Indemnity Company	2006
Richard Leslie Bertrand Mequon, Wisconsin	Senior Vice President and Chief Financial Officer of Extendicare Health Services, Inc.	2006
Mark William Durishan Milwaukee, Wisconsin	Retired	2006
Melvin Albert Rhinelander Milwaukee, Wisconsin	President and Chief Executive Officer of Extendicare, Inc. Chief Executive Officer of Extendicare (Canada) Inc. President of Crownx Properties Inc.	2006
Phillip William Small Mequon, Wisconsin	Senior Vice President of Extendicare Inc., and Extendicare (Canada) Inc. Executive Vice President and Chief Operating Officer of Extendicare Health Services, Inc. Vice President of Crownx Properties Inc.	2006

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2004 Compensation
James Wesley Carter	President	$48,000

Committees of the Board

The company's bylaws do not allow for the formation of committees by the board of directors. There were no committees at the time of the examination.

IV. AFFILIATED COMPANIES

Laurier Indemnity Company is a member of a holding company system, the Extendicare Group (hereinafter also, EG) whose ultimate parent is Extendicare, Inc. (hereinafter also, EI). The organizational chart of the significant affiliates of the holding company systems is presented later in this section. A brief description of the significant affiliates is included in this report.

Extendicare, Inc.*

Extendicare, Inc., through its subsidiaries, operates 440 nursing homes and assisted living facilities across North America, with a capacity for over 34,400 residents, and is the ultimate parent of the holding company system. As of December 31, 2004, the audited financial statements stated in Canadian dollars in accordance with the generally accepted accounting principles of Canada, reported assets of $1,182,856,298, liabilities of $803,876,979, and stockholders' equity of $378,979,319. Operations for 2004 produced net income of $103,829,189.

Crownx Properties, Inc.*

Crownx Properties, Inc., (CPI) owns and leases real estate unrelated to nursing home operations and owns 23.6% of Extendicare (Canada), Inc. (ECI). As of December 31, 2004, the unaudited financial statements of CPI reported assets of $111,496,409, liabilities of $20,928,775, and stockholders' equity of $90,567,634. Operations for 2004 produced net income of $6,831,303.

VCP Holdings, Inc.*

VCP Holdings, Inc., (VCPHI) is a holding company that owns the stock of Virtual Care Provider, Inc. As of December 31, 2004, the unaudited financial statements of VCPHI reported assets of $15,942,046, liabilities of $1,241, and capital stock of $15,940,805. There are no operating results since the sole purpose of VCPHI is to hold the stock of Virtual Care Provider, Inc., and no dividends were paid to VCPHI.

* Denotes that the amounts reported to examiners was converted using the conversion factor provided by the NAIC of 0.8293.

Virtual Care Provider, Inc.

Virtual Care Provider, Inc., (VCPI) provides information technology for affiliates, including the company, and unaffiliated health care facilities. As of December 31, 2004, the unaudited financial statements of VCPI reported assets of $12,998,650, liabilities of $802,614, and stockholders' equity of $12,196,036. Operations for 2004 produced net income of $177,780.

Extendicare (Canada), Inc.*

Extendicare (Canada), Inc., (ECI) and its subsidiaries operate nursing and retirement centers in four provinces, manage a chronic care hospital unit in Ontario, and provide home health care in Canada through its ParaMed Home Health Care division. ECI owns 94% of Extendicare International, Inc. As of December 31, 2004, the unaudited financial statements of ECI reported assets of $441,241,582, liabilities of $322,032,003, and share capital of $119,209,579. Operations for 2004 produced net income of $8,526,927.

Laurier Indemnity Co., Ltd.

Laurier Indemnity Co., Ltd., (LICL) provides insurance for affiliates and is domiciled in Bermuda. As of December 31, 2004, the audited financial statements of LICL reported assets of $37,092,744, liabilities of $26,751,417, and capital and surplus of $10,341,327. Operations for 2004 produced net income of $508,430.

The Northern Group, Inc.

The Northern Group, Inc., (TNGI) provides insurance claims handling services for Extendicare Health Services, Inc., and its subsidiaries. As of December 31, 2004, the unaudited financial statements of TNGI reported assets of $4,112,439, liabilities of $3,626,064, and owners' equity of $486,375. Operations for 2004 produced net income of $19,049.

Extendicare Southwestern Ontario Canada, Inc.*

Extendicare Southwestern Ontario Canada, Inc., (ESOCI) operates nursing homes within ECI operations and owns 3% of Extendicare International, Inc. As of December 31, 2004, the unaudited financial statements of ESOCI reported assets of $21,331,843, liabilities of

* Denotes that the amounts reported to examiners was converted using the conversion factor provided by the NAIC of 0.8293.

$14,878,411, and shareholders' equity of $6,453,432. Operations for 2004 produced net income of $617,185.

New Orchard Lodge, Ltd.*

New Orchard Lodge, Ltd., (NOLL) operates nursing homes within ECI operations and owns 3% of Extendicare International, Inc. As of December 31, 2004, the unaudited financial statements of NOLL reported assets of $108,254,946, liabilities of $61,509,026, and shareholders' equity of $46,745,920. Operations for 2004 produced net income of $4,941,424.

Extendicare International, Inc.*

Extendicare International, Inc., (EII) is a Canadian holding company of Extendicare Holdings, Inc. As of December 31, 2004, the unaudited financial statements of EII reported assets of $99,840,988, liabilities of $1,601, and shareholders' equity of $99,839,387. There are no operating results since the sole purpose of this company is to hold the stock of Extendicare Holdings, Inc., and no dividends were paid to EII.

Extendicare Holdings, Inc.

Extendicare Holdings, Inc., (EHI) is an intermediate U.S. holding company of Extendicare Health Services, Inc. As of December 31, 2004, the unaudited financial statements of EHI reported assets of $183,927,015, liabilities of $16,899,969, and shareholders' equity of $167,027,046. Operations for 2004 produced a net loss of $(18,100).

Extendicare Health Services, Inc.

Extendicare Health Services, Inc. (EHSI) and its subsidiaries operate skilled nursing and assisted living facilities in 19 states, and provide medical specialty services such as subacute care and inpatient and outpatient rehabilitative therapy. As of December 31, 2004, the audited financial statements of EHSI reported assets of $735,957,000, liabilities of $485,768,000, and shareholders' equity of $250,189,000. Operations for 2004 produced net income of $67,738,000.

* Denotes that the amounts reported to examiners was converted using the conversion factor provided by the NAIC of 0.8293.

Agreements with Affiliates

Consulting Services Agreement with Phil Cook

There is a Consulting Services Agreement by and between The Northern Group, Inc., Laurier Indemnity Company and Phil Cook, effective December 19, 2003.

Under this agreement, Phil Cook provides consulting services including, but not limited to, approving claim payments and settlements according to the policies and accounts, setting reserves on litigated claims, insuring compliance with laws and regulations and reviewing premium adjustments for accuracy. The initial term of the agreement is one year with automatic renewal for successive one-year terms. Any party may terminate the agreement at any time with 90 days' advance written notice to the others.

Phil Cook is entitled to a fee of $1,000 per diem plus travel and required expenses to be billed monthly. No fee was charged in 2004 due to The Northern Group, Inc., performing the work. It is estimated that the fee for 2005 will be in the $5,000 to $10,000 range.

Consulting Services Agreement with J. Wesley Carter

There is a Consulting Services Agreement by and between J. Wesley Carter and Laurier Indemnity Company. Under this agreement, J. Wesley Carter is to oversee and provide direction for the insurance business of the company in exchange for an annual fee of $48,000. The initial term of the agreement is one year with automatic renewal for successive one-year terms. Any party may terminate the agreement at any time with 90 days' advance written notice to the other party.

Services Agreement with Extendicare Health Services, Inc.

There is a Services Agreement by and between Extendicare Health Services, Inc., and Laurier Indemnity Company effective December 19, 2003. Under this agreement, EHSI is to provide payroll processing, human resources, executive administration, benefits administration, licenses and certifications, records and legal services. The fees to which EHSI is entitled are based on costs reasonably and fairly incurred by EHSI. No fee was charged in 2004 since most of the services were performed by TNGI. For 2005, EHSI is charging a fee of $5,000 per month with a year-end adjustment to actual. Either party may terminate the agreement at any time with 60 days' advance written notice to the other party.

Lease Agreement with Extendicare Health Services, Inc.

There is a Lease Agreement by and between Extendicare Health Services, Inc., and Laurier Indemnity Company effective December 19, 2003. Under this agreement, the company leases 2,000 square feet of office space from Extendicare Health Services, Inc., at an annualized rent of $15 per square foot. The initial term of the lease is for five years with automatic renewal for additional five-year terms unless either party gives the other 90 days' prior written notice of termination before expiry of a term.

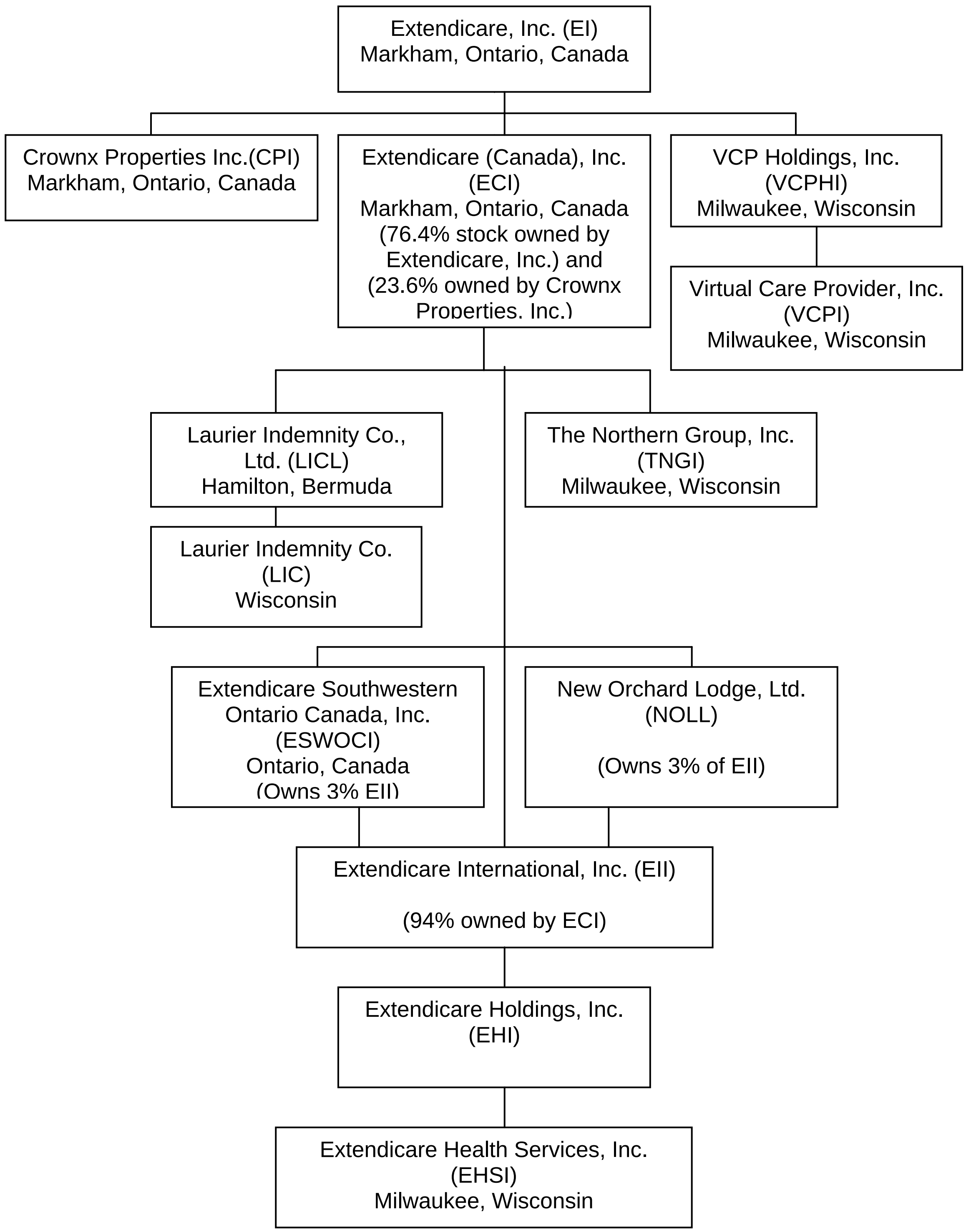
Partial Assignment and Assumption Agreement

There is a Partial Assignment and Assumption Agreement by and between Virtual Care Provider, Inc., The Northern Group, Inc., and Laurier Indemnity Company effective December 19, 2003. Under this agreement, the company receives data processing services and equipment from Virtual Care Provider, Inc., in exchange for the reasonable allocated cost of their provision. The agreement terminates on December 31, 2005.

Management Agreement with The Northern Group, Inc.

This agreement provided for The Northern Group, Inc., to provide management services to the company. It was terminated effective November 1, 2004, as the parent transferred employees from The Northern Group, Inc., to the company. The termination agreement was not filed with Wisconsin.

Organizational Chart
As of December 31, 2004



V. REINSURANCE

The company had no reinsurance contracts in effect at the time of the examination. Effective October 1, 2003, the company commuted a reinsurance contract with Laurier Indemnity Company, Ltd., its Bermuda-domiciled affiliate. The company received cash for this commutation. The company has worker's compensation claims that are covered under a reinsurance contract with Employers Reinsurance Corporation that was terminated effective January 1, 1996. The company has stopped writing worker's compensation for affiliates due to soft market conditions. The company assumes risk from the NCCI National Workers Compensation Pool to remain licensed as a worker's compensation writer, should the parent decide to have the company write this business for its affiliates again. The company's single risk retention is in violation of s. Ins 6.72, Wis. Adm. Code, see "Summary of Current Examination Results" section for further details.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Laurier Indemnity Company
Assets
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$15,436,126	$0	$15,436,126
Stocks:			
Common stocks	2,900,829		2,900,829
Cash	201,975		201,975
Short-term investments	3,870,969		3,870,969
Investment income due and accrued	176,639		176,639
Reinsurance:			
Amounts recoverable from reinsurers	9,190		9,190
Current federal and foreign income tax recoverable and interest thereon	4,000		4,000
Write-ins for other than invested assets:			
Oregon Imprest Fund	47,994		47,994
Prepaids	416	0	416
Total Assets	$22,648,138	$0	$22,648,138

Laurier Indemnity Company
Liabilities, Surplus, and Other Funds
As of December 31, 2004

Losses		$ 6,527,049
Loss adjustment expenses		1,268,190
Other expenses (excluding taxes, licenses, and fees)		34,095
Taxes, licenses, and fees (excluding federal and foreign income taxes)		82,892
Current federal and foreign income taxes		37,000
Unearned premiums		1,895,747
Advance premium		116,040
Payable to parent, subsidiaries, and affiliates		2,192
Write-ins for liabilities:		
Retrospective Rated Premium		329,489
Payroll – 401K Match		365
Total Liabilities		10,293,059
Common capital stock	$3,420,000	
Gross paid in and contributed surplus	2,280,000	
Unassigned funds (surplus)	6,655,079	
Surplus as Regards Policyholders		12,355,079
Total Liabilities and Surplus		$ 22,648,138

Laurier Indemnity Company
Summary of Operations
For the Year 2004

Underwriting Income		
Premiums earned		$ 1,757,140
Deductions:		
Losses incurred	$ 49,312	
Loss expenses incurred	192,474	
Other underwriting expenses incurred	608,336	
Total underwriting deductions		850,122
Net underwriting gain		907,018
Investment Income		
Net investment income earned	612,361	
Net realized capital gains	248,492	
Net investment gain		860,853
Net income after dividends to policyholders but before federal and foreign income taxes		1,767,871
Federal and foreign income taxes incurred		37,000
Net Income		$ 1,730,871

Laurier Indemnity Company
Cash Flow
For the Year 2004

Premiums collected net of reinsurance			$3,576,248
Net investment income			761,839
Total			4,338,087
Benefit and loss related payments		$ 676,408	
Commissions, expenses paid, and aggregate write-ins for deductions		895,831	
Federal and foreign income taxes paid (recovered)		4,000	
Total deductions			1,576,239
Net cash from operations			2,761,848
Proceeds from investments sold, matured, or repaid:			
Bonds	$7,958,489		
Stocks	124,649		
Total investment proceeds		8,083,138	
Cost of investments acquired (long-term only):			
Bonds	4,650,724		
Stocks	2,838,016		
Total investments acquired		7,488,740	
Net cash from investments			594,398
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		(529,510)	
Net cash from financing and miscellaneous sources			(529,510)
Reconciliation			
Net change in cash and short-term investments			2,826,736
Cash and short-term investments, December 31, 2003			1,246,208
Cash and short-term investments, December 31, 2004			$4,072,944

Laurier Indemnity Company
Compulsory and Security Surplus Calculation
December 31, 2004

Assets		$22,648,138
Adjusted surplus		12,355,079
Annual premium:		
Lines other than accident and health	$3,558,439	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory surplus excess (or deficit)		$10,355,079
Adjusted surplus (from above)		$12,355,079
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security surplus excess (or deficit)		$ 9,555,079

Laurier Indemnity Company
Reconciliation and Analysis of Surplus
For the Five-Year Period Ending December 31, 2004

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2004	2003	2002	2001	2000
Surplus, beginning of year	$10,444,463	$10,470,925	$9,823,839	$14,370,846	$13,473,564
Net income	1,730,871	(11,624)	623,409	(3,101,916)	1,075,112
Net unrealized capital gains or (losses)	179,745	(16,595)	25,434		14,811
Change in nonadmitted assets		1,757	(1,757)		
Write-ins for gains and (losses) in surplus:					
Excess of statutory seserves over statement reserves				45,000	(45,000)
Pennsylvania paid losses from prior years				(1,490,091)	
Extraordinary amounts of taxes for prior years					(147,641)
Surplus, end of year	$12,355,079	$10,444,463	$10,470,925	$ 9,823,839	$14,370,846

Laurier Indemnity Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2004

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks.

	Ratio	2004	2003	2002	2001	2000
#1	Gross Premium to Surplus	29%	18%	16%	0%	0%
#2	Net Premium to Surplus	29	18	16	0	0
#3	Change in Net Writings	94*	7	999*	0	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	55	103*	346*	999*	0
#6	Investment Yield	2.9*	3.4*	3.7*	5.4	8.1
#7	Change in Surplus	20	-1	7	-32*	7
#8	Liabilities to Liquid Assets	46	49	43	49	34
#9	Agents' Balances to Surplus	0	0	0	0	0
#10	One-Year Reserve Development to Surplus	-13	6	-1	24*	-8
#11	Two-Year Reserve Development to Surplus	-6	3	24*	7	-23
#12	Estimated Current Reserve Deficiency to Surplus	-5	19	0	0	0

The company redomiciled to Wisconsin in 2003. This examination will comment only on exceptional IRIS results since redomestication. For 2003, the company had two exceptional ratios. The exceptional result for Ratio #5, the Two-Year Overall Operating Ratio, was attributable to increases of 24% in premiums and 44% in loss and loss adjustment expense incurred. The exceptional results in 2003 and 2004 for Ratio #6, Investment Yield, was due to the predominance of high quality, lower yielding investments in the company's portfolio. In 2004, Ratio #3, the Change in Net Writings, was exceptional due to an increase in net premiums written.

Growth of Laurier Indemnity Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2004	$22,648,138	$10,293,059	$12,355,079	$ 1,730,871
2003	20,178,236	9,733,773	10,444,463	(11,624)
2002	18,632,422	8,161,497	10,470,925	623,409
2001	19,096,318	9,272,476	9,823,842	(3,101,916)
2000	21,695,011	7,325,165	14,370,846	1,075,112

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2004	$3,558,439	$3,558,439	$1,757,140	13.8%	17.1%	30.9%
2003	1,834,119	1,834,119	1,993,783	98.2	55.0	153.2
2002	1,708,114	1,706,954	1,602,700	67.3	57.4	124.7
2001	(446,669)	(343,724)	(345,554)	-898.5	-303.9	-1202.4
2000	(519,720)	(418,878)	(541,177)	195.6	-273.8	-78.2

The company redomiciled to Wisconsin in 2003. Surplus increased from $10,444,463 in 2003 to $12,355,079 in 2004. Premiums written on a gross and net basis increased from $1,834,119 in 2003 to $3,558,439 in 2004. Premiums earned decreased to $1,757,140 in 2004 from $1,993,783 in 2003. The increase in premiums written was due to the company receiving payment for a policy effective December 31, 2004, at noon, and the previous policy date was January 1, 2004, to December 31, 2004, at noon, and this increased the unearned premium. Earned premium decreased due to liability premium decreasing from $2,400,000 in 2003 to $1,700,000 in 2004. The combined ratio for 2004 was 30.9%, which represented a marked improvement in comparison with 2003's combined ratio of 153.2%.

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

	Increase	Decrease	
Surplus December 31, 2004, per annual statement			$12,355,079
Oregon Imprest Fund	$	$47,994	
Net increase or (decrease)			(47,994)
Surplus December 31, 2004, per examination			$12,307,085

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report conducted by the Georgia Department of Insurance.

Summary of Current Examination Results

Disaster Recovery Plan

The examination noted that the company was currently in the process of updating its disaster recovery plans as earlier plans were no longer considered sufficient for its recovery purposes. It is recommended that the company continue to update its disaster recovery plans to properly address issues necessary for the company to continue operations in the event of a disaster. Once completed, the plan should be tested and updated on an annual basis.

Conflict of Interest

The company received four individually signed conflict of interest statements from directors who are also officers of the company. The company indicated that the other three directors had signed a Unanimous Written Consent at a board meeting that included a resolution that stated the directors had reviewed the company policy statement on conflicts of interest and each had concluded and certified that he had not violated any of the principles enunciated in said policy statement. The company has a sound and well-written policy statement on conflicts of interest. However, the company could improve its procedures in this regard by obtaining individual certifications where the director-officer has to respond directly to questions regarding possible conflicts. A requirement for an annual individual certification could prompt a director or officer to respond with greater thought and consideration than a routine unanimous consent resolution voted on each year. Also, the director would need to attach a written statement as to what the conflict is and this is not convenient under a written unanimous consent. It is recommended that the company obtain individual conflict of interest statements from all directors.

Unclaimed Funds

The review of the bank reconciliations revealed that the company had not been setting up a liability for long outstanding checks for escheatment. It is recommended that the company comply with ch. 177, Wis. Stat., and the equivalent laws of other states in which it operates. It is further recommended that a liability for unclaimed funds be established in future statutory financial statements to account for all checks outstanding for over one year.

Cash and Short-term Investments

Testing of cash disbursements revealed that invoice documentation does not contain management initials and dating to evidence review and approval of invoices for payment. It is recommended that procedures be implemented to require management initials and dating of invoice documentation to provide an audit trail evidencing review and approval for subsequent payment.

The company reported a cash account as a write-in for other than invested assets under the title “Oregon Imprest Fund.” The account was not registered in the company’s name, but rather in the name of an affiliate, and should not have been reported as an asset of the company. However, the company claims it is the proper owner of the account. The company should transfer this cash to an account in its name and report the amount as cash on future statutory financial statements. The examination nonadmitted the $44,994 reported for this account as reflected in the section of this examination report captioned, “Reconciliation of Surplus per Examination.”

Bonds and Stocks

Investment transaction testing noted that the majority of investment acquisitions reported on Schedule D, Part 3, Long-Term Bonds and Stocks Acquired, and dispositions on Schedule D, Part 4, Long-Term Bonds and Stocks Sold, were reported using the settlement date rather than the trade date as required by SSAP No. 26 and SSAP No. 30. It is recommended that the company report acquisitions and dispositions as of the trade date on Schedule D, Part 3, Long-Term Bond and Stocks Acquired, and Schedule D, Part 4, Long-Term Bonds and Stocks Sold, in accordance with SSAP No. 26 and SSAP No. 30.

Reinsurance Recoverable

During the testing of reinsurance recoverable the company could not determine the age of $2,200.92 of the balance of the recoverable. No adjustment was made due to the amount being below this examination’s selected levels for materiality and tolerable error. However, a recommendation for future guidance is in order. It is recommended that the company nonadmit any amounts it cannot reconcile or prove are less than 90 days old in order to ensure compliance with the NAIC Accounting Practices and Procedures Manual and the Annual Statement Instructions.

Holding Company

The company is filing the parent's annual statement with its holding company Form B filing each year. This annual statement is in Canadian dollars. Pursuant to s. 40.11 (2) (b), Wis. Adm. Code, the company is to provide a translation to United States currency but has not provided one with its filings. It is recommended that the company comply with s. 40.11 (2) (b), Wis. Adm. Code, and provide a translation into United States currency with its Form B filings.

The company provided the examiners with affiliated contracts and consulting contracts for the President and Loss Reserve, Claim Payment Specialist, which all were effective the same day the company became a Wisconsin domestic. The president's contract should have been reported under s. 611.60 (1) (c), Wis. Stat., after the board had approved the contract. The company also provided a copy of the special termination of an agreement with TNGI dated approximately one and a half months prior to redomestication to Wisconsin. These contracts should have been filed with this office 30 days in advance of the effective date in accordance with s. Ins 40.04, Wis. Adm. Code. The agreements were described in the section of this examination report captioned, "Affiliated Agreements." It is recommended that the company submit all affiliated agreements not submitted for non-disapproval in accordance with s. Ins 40.04, Wis. Adm. Code, and s. 611.60 (1) (c), Wis. Stat. It is also recommended that the company submit all future affiliated agreements to the Office of the Commissioner of Insurance for review at least 30 days prior to the effective date in accordance with ss. Ins 40.04 and 40.17, Wis. Adm. Code, and after board approval for contracts with directors or officers pursuant to s. 611.60 (1) (c), Wis. Stat. Subsequent to field work, the company has filed several Form D filings, which have been approved by this office.

The examination noted that the board minutes did not make any specific reference to the consultant agreements or approval of the consultant agreements by the board of directors. It is recommended that the board review and approve all contracts with officers, employees, retirees or consultants and document such in the minutes of the board meetings pursuant to s. 611.60 (1) (c), Wis. Stat.

Premium-Underwriting

Review and comparison of Premium System billing files provided by the company to supporting Policy Declarations and Endorsements indicated a number of discrepancies associated with:

- Facility name differences between the Premium System and Policy Schedule of Locations or named insureds due to name changes.
- Lack of Premium System identification or allocation of premium charges to various physical therapy or assisted living facilities included in the policy.
- Workers Compensation Schedule of named insured inclusion of both the corporate name as well as the facility name avoiding duplication of named insureds.
- Facilities not included in the Schedule of Locations or named insureds, which were subsequently added by endorsement.

It is recommended that the company take measures to improve the consistency of records between the Premium System and related Policy Declarations and Endorsements System.

A request for rate filings with the Office of the Commissioner of Insurance noted the company had not filed rates for its professional liability or surety business. The company was not aware of this requirement. It is recommended that the company file all rates for all lines of business for which it is licensed in this state in accordance with s. 625.13, Wis. Stat., except for worker's compensation rates that are required to be filed by the Worker's Compensation Rating Bureau.

During premium testing it was discovered that on-site staff is mainly dedicated to accounting or claims processing functions. The company places a high degree of reliance on the consultant to perform underwriting, rate setting and policy documentation. In discussing this with the consultant he acknowledged this was a concern for the company as well and options were then under consideration. It is recommended that the company hire an on-site Risk Manager to provide ongoing management oversight of underwriting-related areas and ensure future business continuity.

Report on Executive Compensation

The Report on Executive Compensation was reviewed for accuracy. It was noted that the company failed to include the one director that is receiving compensation through consulting fees, that the compensation amounts for other officers and directors apportioned to the company were not disclosed and that the company answered the holding company question incorrectly. The company indicated on the form that it was not part of a holding company system. It is recommended that the company file an amended 2004 Report on Executive Compensation to include apportioned amounts paid to all officers and directors of the company and to correctly disclose membership in a holding company system on the form. It is further recommended that the company properly complete the Report on Executive Compensation in the future.

Annual Statement and Quarterly Filings

The examination included review of the annual and quarterly statutory financial statement filings of the company. In addition to errors in filing noted elsewhere in this examination report, the examination noted the following errors:

1. The company was not allocating the deferred balances between the line item for uncollected premiums and agents' balances in the course of collection and the line item for deferred premiums, agents' balances and installments booked but deferred and not yet due on its quarterly statements according to SSAP No. 6 and the <u>NAIC Annual and Quarterly Statement Instructions - Property and Casualty</u>.
2. The company reported a prepaid expense as an admitted asset contrary to SSAP.
3. The company reported an overpayment of 2003 taxes it applied to 2004 taxes as a deferred tax asset. The company should have applied this overpayment to reduce current federal and foreign taxes line in the Annual Statement.
4. The company neglected to indicate the state that conducted its last examination in the general interrogatory requiring disclosure of that information.

5. Schedule Y, Part 2, did not include the affiliated company receiving the services as well as the company providing the services. The company subsequently filed an amended Schedule Y, Part 2.
6. The company reported it had no employees when, in fact, effective November 2004 the company had four employees.
7. The company did not include VCPI in its organization chart. This affiliate is providing information technology systems and services to the company.
8. The company reported a write-in liability for 401k deductions that had not yet been remitted. Further review noted the amount should have been reported as an affiliated payable, since payment was due to EHSI.
9. The company incorrectly entered the accumulated amount paid in Column 10, Salvage and Subrogation Prior Years, in Schedule P, Part 1, Summary. The amount should be only current year payments for prior years.

It is recommended that the company complete its annual and quarterly statutory financial statements in accordance with NAIC Quarterly and Annual Statement Instructions – Property and Casualty and NAIC Accounting Practices and Procedures Manual.

VIII. CONCLUSION

The company redomiciled to Wisconsin in December 2003. The previous examination was conducted by the Georgia Department of Insurance as of December 31, 2000, and had no recommendations. Since then the company's assets have grown to $22,648,138, liabilities have grown to $10,293,059 and surplus has grown to $12,355,079. The company made several errors in filling out the Annual Statement and a recommendation was issued for the company to follow NAIC Annual Statement and Quarterly Instructions. The company is part of a holding company system under the ultimate control of Extendicare, Inc., a publicly-held Canadian corporation. The company failed to submit affiliated agreements prior to them becoming effective. Overall, it appeared that the company was sincerely attempting to follow applicable Wisconsin laws and the NAIC's statutory accounting guidance, but fell short on certain aspects of compliance. The examination resulted in 17 recommendations related to reporting issues, reinsurance, premium, underwriting and investments.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 26 - Disaster Recovery Plan—It is recommended that the company continue to update its disaster recovery plans to properly address issues necessary for the company to continue operations in the event of a disaster. Once completed, the plan should be tested and updated on an annual basis.

2. Page 26 - Conflict of Interest—It is recommended that the company obtain individual conflict of interest statements from all directors.

3. Page 26 - Unclaimed Funds—It is recommended that the company comply with ch. 177, Wis. Stat., and the equivalent laws of other states in which it operates.

4. Page 26 - Unclaimed Funds—It is further recommended that a liability for unclaimed funds be established in future statutory financial statements to account for all checks outstanding for over one year.

5. Page 27 - Cash and Short-term Investments—It is recommended that procedures be implemented to require management initials and dating of invoice documentation to provide an audit trail evidencing review and approval for subsequent payment.

6. Page 27 - Bonds and Stocks—It is recommended that the company report acquisitions and dispositions as of the trade date on Schedule D, Part 3, Long-Term Bond and Stocks Acquired, and Schedule D, Part 4, Long-Term Bonds and Stocks Sold, in accordance with SSAP No. 26 and SSAP No. 30.

7. Page 27 - Reinsurance Recoverable—It is recommended that the company nonadmit any amounts it cannot reconcile or prove are less than 90 days old in order to ensure compliance with the NAIC Accounting Practices and Procedures Manual and the Annual Statement Instructions.

8. Page 28 Holding Company—It is recommended that the company comply with s. 40.11 (2) (b), Wis. Adm. Code, and provide a translation into United States currency with its Form B filings.

9. Page 28 - Holding Company—It is recommended that the company submit all affiliated agreements not submitted for non-disapproval in accordance with s. Ins 40.04, Wis. Adm. Code, and s. 611.60 (1) (c), Wis. Stat.

10. Page 28 - Holding Company—It is also recommended that the company submit all future affiliated agreements to the Office of the Commissioner of Insurance for review at least 30 days prior to the effective date in accordance with ss. Ins 40.04 and 40.17, Wis. Adm. Code, and after board approval for contracts with directors or officers pursuant to s. 611.60 (1) (c), Wis. Stat. Subsequent to field work, the company has filed several Form D filings, which have been approved by this office.

11. Page 28 - Holding Company—It is recommended that the board review and approve all contracts with officers, employees, retirees or consultants and document such in the minutes of the board meetings pursuant to s. 611.60 (1) (c), Wis. Stat.

12. Page 29 - Premium-Underwriting—It is recommended that the company take measures to improve the consistency of records between the Premium System and related Policy Declarations and Endorsements System.

13. Page 29 - Premium-Underwriting—It is recommended that the company file all rates for all lines of business for which it is licensed in this state in accordance with s. 625.13, Wis. Stat., except for worker's compensation rates that are required to be filed by the Worker's Compensation Rating Bureau.

14. Page 29 - Premium-Underwriting—It is recommended that the company hire an on-site Risk Manager to provide ongoing management oversight of underwriting-related areas and ensure future business continuity.

15. Page 30 - Report on Executive Compensation—It is recommended that the company file an amended 2004 Report on Executive Compensation to include apportioned amounts paid to all officers and directors of the company and to correctly disclose membership in a holding company system on the form.

16. Page 30 - Report on Executive Compensation—It is further recommended that the company properly complete the Report on Executive Compensation in the future.

17. Page 31 - Annual Statement and Quarterly Filings—It is recommended that the company complete its annual and quarterly statutory financial statements in accordance with NAIC Quarterly and Annual Statement Instructions – Property and Casualty and NAIC Accounting Practices and Procedures Manual.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Tim VandeHey	IS Specialist
Thomas Janke	Financial Examiner

Respectfully submitted,

David A. Grinnell
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

At the time of fieldwork for the examination, the company retained $5,000,000 of risk on a worker’s compensation excess of loss policy. Section Ins 6.72, Wis. Adm. Code, limits the company to retaining no more than 10% of its policyholders’ surplus on any single risk. As of December 31, 2004, the company’s adjusted surplus was $12,307,085 and 10% of this amount is $1,230,709. The worker’s compensation excess of loss policy was subsequently cancelled and OCI and the company entered into a stipulation and order to modify the company’s risk limitation pursuant to s. Ins 6.72 (1), Wis. Adm. Code. Under the terms of this stipulation and order, no single risk written or assumed by the company shall exceed 10% of surplus as regards policyholders pursuant to s. Ins 6.72 (1), Wis. Adm. Code, unless all of the following conditions are continuously maintained:

(a) The company has no worker’s compensation policies currently in effect and all worker’s compensation risks assumed by the company are in run-off; and

(b) The company shall maintain surplus as regards policyholders in excess of its security surplus standard pursuant to s. 623.12, Wis. Stat., and s. Ins 51.80 (4), Wis. Adm. Code; and

(c) The company’s surplus as regards policyholders exceeds the product of 4.0 times the company’s authorized control level risk based capital as “authorized control level risk based capital” is defined by s. Ins 51.01 (3), Wis. Adm. Code.

If the foregoing conditions are continuously maintained, risks written or assumed by the company on behalf of Extendicare, Inc., or its affiliates on both a single and an aggregate basis shall not exceed 50% of the company’s surplus as regards policyholders. No single risk written or assumed by the company on behalf of any nonaffiliated entity shall exceed 10% of surplus as regards policyholders pursuant to s. Ins 6.72 (1), Wis. Adm. Code.

The company is required to notify the OCI if the conditions required for the higher risk threshold for affiliated risks cease to be maintained within ten business days of the company's becoming aware of its situation in this respect.